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BREXIT… THE AFTERSHOCK

The news that Britain had decided to exit the European Union (EU) sent shockwaves through world markets. Until then, many South Africans were not even really aware of 'Brexit'.

What happened?
In a referendum on 23rd June, Britons voted to leave the EU by an overall 52 per cent majority. The UK is clearly not united in this decision - while England and Wales voted in favour of leaving the EU, Scotland and Northern Ireland voted to stay.

Background
The EU was started after the Second World War in the hope that countries which trade together would be less likely to go war with one another.

The EU comprises 28 European countries, which co-operate economically and politically as if they are one country. This 'single market' allows the free movement of goods, services, money and people within the EU.

The UK joined the EU in 1973. Britain's membership of the EU is regarded by many as fundamental to her economic growth and global competitiveness. However, many Britons have become unhappy with the imposition of EU regulations and the mass migration from poorer to richer countries within the EU.

In his last election campaign, British Prime Minister, David Cameron, promised to hold a referendum to allow voters to choose whether to stay in or to leave the EU.

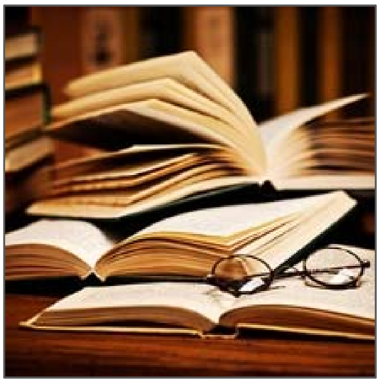
The impact of Brexit
The UK is the fifth largest economy in the world and a key member of the EU. Pulling out of the EU pushes the entire world into a new era of uncertainty.

- Political uncertainty – David Cameron has resigned but will only be replaced in October.
- Uncertainty regarding the survival of the UK and the possibility of a very different Britain.
- Uncertainty regarding Britain's 'divorce' from Europe - a huge undertaking which will take at least two years to complete.

Uncertainty is not good for anyone, and while it continues, financial markets will remain volatile, business and consumer confidence will be low and economic growth will be hit.

For now, it is best to 'keep calm and carry on'- only time will tell what the outcome of Brexit will be.

THE IMPORTANCE OF GOOD TRUST ADMINISTRATION



The South African Revenue Service (SARS) Strategic Plan (2012/13 – 2016/17) highlighted the government's concern that there was a "compliance risk posed by high-net worth individuals and the use of trusts to conceal their income."

Some examples of SARS' trust reform programme over the last few years include:

- April 2012: SARS launched its Compliance Programme, focusing on the lack of compliance of wealthy South Africans and their trusts.
- 2013 Budget Speech: Minister Gordhan proposed various measures to protect the tax base and limit the scope for tax leakage and avoidance, including that "... the taxation of trusts will come under review to control abuse."
- 2014 tax year: SARS introduced a new, more comprehensive income tax return for trusts (ITR12T) which requires an increased level of reporting in respect of trusts.
- 13th July 2015: Davis Tax Committee (DTC) released its first report on the proposed amendments to South Africa's existing estate duty system for public comment. The DTC made a number of recommendations which will have important implications for estate planning and the taxation of trusts if adopted by Treasury.
- 2016 Budget Speech: Minister Gordhan proposed tax changes to trusts to curb tax avoidance.

The Davis Tax Committee has yet to issue its final report which will hopefully shed more light on the tax changes we can expect. Despite the uncertainty over the last few years, the importance of trusts should not be overlooked.

Trusts continue to offer valuable benefits, particularly relating to asset-protection and asset-continuation. Trusts are an important estate planning tool, providing certainty for the succession and protection of assets. Provided that trusts are set up for the right reasons and that the trustees manage the trust assets properly, trusts can offer specific benefits such as savings on Estate Duty and Executor's fees. Trusts can also be used to protect incapacitated beneficiaries and offer protection from creditors.

Even though it is clear that the courts are scrutinising trusts more closely, the principles of trust law have not changed. What is important in the current environment is proper trust administration and compliance and so it is crucial that trustees are fully aware of their responsibilities and duties.

SOUTH AFRICA'S LATEST CREDIT RATINGS

South Africa's credit ratings have been in the news a lot recently. With much talk of a possible downgrade to junk status, the anticipation of the revised ratings has been rather like waiting for a bad school report.

Here is South's Africa's most recent 'report card' from the three 'world players' in the rating industry: Moody's, Standard & Poor's and Fitch:

- **Moody's: Baa 2/Negative**
- **Standard & Poor's (S&P) : BBB-/Negative**
- **Fitch: BBB-/Stable**

How does this 'marking system' work?

The rating system varies between the three rating agencies.

The highest-rated investment grade securities are AAA or Aaa (triple A).

An investment grade rating lies within the range of Aaa to Baa3 (Moody's) or AAA to BBB- (S&P). The lowest possible investment grade rating is BBB- (S&P) and Baa3 (Moody's).

Credit ratings for bonds below these designations ('BB', 'B', 'CCC', etc.) are considered low credit quality, also known as high yield or junk bonds.

What does a negative outlook mean?

A negative outlook is a ‘reality check’ and is often the first step towards a downgrade.

What is the significance of sovereign credit ratings?

- Credit ratings are used by sovereign wealth funds, pension funds and other investors to assess the credit worthiness of bond issuers (countries which borrow money by issuing IOU’s known as bonds.)
- The ratings are a measure of the political and economic risk of investing in a country and give an indication of the likelihood that the country will repay debt.
- Lower credit ratings result in higher borrowing costs because the borrower is deemed to carry a higher risk of default.

Its seems that this time round, the rating agencies have decided that South Africa, after several years of falling growth, may be reaching a turning point. They appear to be allowing the country more time for the promised economic reforms take effect and for indications of an economic recovery.

It is thought that South Africa’s ratings will be reviewed again towards the end of the year.

HAVE YOU GOT A BUSINESS GROWTH STRATEGY?

The South African Revenue Service (SARS) has recently alerted small businesses to a new scam in which criminals, posing as SARS officials, demand outstanding payments of undeclared taxes.

There have also been a few incidents where scammers demand money for ‘wiping off’ SARS debts.

SARS stressed that it is not in the habit of sending agents to collect debt from individuals or businesses. All outstanding tax, VAT or duties must only be paid directly into a SARS bank account and any outstanding accounts must be handled directly by its offices.

SARS stated that no money should be paid over to debt collectors or self-proclaimed SARS officials. “In fact, collectors who want money to be handed over to them must be immediately reported.” Scams like this are nothing new, there is a whole section on the SARS website which creates awareness of the various scams and provides contact details for reporting anything suspicious.

Other typical examples of SARS scams include e-mails that come from ‘returns@sars.co.za’ or ‘refunds@sars.co.za’. These e-mails often contain links to false forms and false websites and are intended to con people into entering personal information such as bank account details, Internet logon credentials and other security details.

There tends to be an increase in e-mail scams and phishing attacks during tax season. With the tax season opening on 1st July 2016, we all need to be on the alert for e-mail and SMS scams doing the rounds.

SARS has issued these guidelines to help taxpayers avoid being caught by a scam:

- Do not open or respond to e-mails from unknown sources.
- Beware of e-mails that ask for personal, tax, banking and e-filing details (login credentials, passwords, PINs, credit/debit card information, etc.). SARS will never ask taxpayers for such information in an e-mail.
- SARS will not request banking details through the phone, e-mail or Web sites.
- Beware of false SMS’s.
- Taxpayers will never be sent hyperlinks to other sites, even those of banks, and the SARS site does not have any links to any banks.